



El Salvador: Political, Economic, and Social Conditions and U.S. Relations

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Summary

Throughout the last few decades, the United States has had a strong interest in El Salvador. During the 1980s, El Salvador was the largest recipient of U.S. aid in Latin America as its government struggled against the Farabundo Marti National Liberation Front (FMLN) insurgency during a 12-year civil war. A 1992 negotiated peace accord brought the war to an end and formally assimilated the FMLN into the political process as a political party. After the peace accords were signed, U.S. involvement shifted towards helping the government rebuild democracy and implement market-friendly economic reforms.

Mauricio Funes of the FMLN was inaugurated to a five-year presidential term in June 2009. Funes won a close election in March 2009, marking the first FMLN presidential victory and the first transfer in political power between parties since the end of El Salvador's civil war. Funes' victory followed strong showings by the FMLN in the January 2009 municipal and legislative elections, in which the party won a plurality of the seats in National Assembly and the largest share of the municipal vote.

As he starts his term, President Funes faces a number of political, economic, and social challenges. A conservative opposition bloc controls the National Assembly, which will likely make it difficult for Funes to advance his legislative agenda. Likewise, the global financial crisis and U.S. recession have weakened El Salvador's economy considerably, increasing the country's already widespread poverty. Moreover, El Salvador's violent crime rates remain among the highest in the world and will need to be addressed.

Successive National Republican Alliance (ARENA) governments maintained close ties with the United States. The Saca Administration (2004-2009) cooperated in counter-narcotics operations, supported the U.S. coalition forces in Iraq, and implemented the Dominican Republic-Central America-United States Free Trade Agreement (CAFTA-DR). Although some Members of Congress expressed reservations about working with an FMLN administration, relations between El Salvador and the United States will likely remain friendly. President Funes has pledged to remain in CAFTA-DR and expressed his willingness to work with the United States on a variety of issues. Following his election, the Obama Administration congratulated President Funes for his victory and pledged to work with him to build on the already strong ties between the United States and El Salvador.

For more information, see CRS Report RL31870, *The Dominican Republic-Central America-United States Free Trade Agreement (CAFTA-DR)*, by J. F. Hornbeck; CRS Report R40135, *Mérida Initiative for Mexico and Central America: Funding and Policy Issues*, by Clare Ribando Seelke and June S. Beittel; and CRS Report RL34112, *Gangs in Central America*, by Clare Ribando Seelke.

Contents

Political, Economic and Social Conditions	1
FMLN Victory	1
Challenges for the Funes Administration	2
Opposition Legislature	2
Endemic Poverty and a Faltering Economy	2
Gangs and Violence	3
Relations with the United States	4
U.S. Foreign Aid	5
Counter-Narcotics Issues	5
Support for U.S. Military Operations in Iraq	6
Migration Issues	6
U.S. Trade and CAFTA-DR	7

Contacts

Author Contact Information	8
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Political, Economic and Social Conditions

FMLN Victory

On June 1, 2009, Mauricio Funes of the leftist Farabundo Martí National Liberation Front (FMLN) was inaugurated to a five year presidential term. Funes defeated Rodrigo Ávila of the conservative Nationalist Republican Alliance (ARENA) 51.3%-48.7% in March 2009, ending 20 years of ARENA rule.¹ Despite some concerns about potential fraud and a few cases of inter-party violence in the run up to the vote, the election was conducted relatively peacefully. Some 5,000 national and international electoral observers supervised the proceedings while 20,000 members of the Salvadoran military and police provided security.² The electoral campaign was extremely polarizing. ARENA sought to tie Funes to the more hard-line members of the FMLN and asserted that an FMLN victory would lead to a deterioration in relations with the United States and the installation of an authoritarian political system. Funes, a former television journalist and the first FMLN nominee without a guerilla past, attempted to project a moderate image, campaigning on the slogan, “Hope is born, change is coming.”³

Funes’ presidential victory is a first for the FMLN, which fought a 12-year civil war against the U.S.-backed Salvadoran government before officially transforming into a political party following the signing of a peace accord in 1992. Some 70,000 Salvadorans (1.4% of the population) were killed during the conflict.⁴ The presidential victory followed a strong showing by the FMLN in the January 2009 municipal and legislative elections, in which it was the only party to increase its representation nationally, winning 49.5% of the municipal vote and a plurality in the National Assembly.⁵

President Funes pledged to govern as a moderate throughout his campaign and has reiterated this intention several times since the election. During his inaugural address, Funes announced a plan to significantly expand public services. He also called for austerity, however, emphasizing the need to reduce excess spending, better target subsidies, and combat tax evasion and public corruption.⁶ Additionally, Funes has called for national unity and a new social pact, saying that the problems El Salvador faces as a result of the global economic downturn can only be resolved through a joint effort of all sectors of society.⁷ This focus on consensus is reflected in Funes’ cabinet, which is composed of leaders from a variety of ideological backgrounds. While fellow members of the FMLN will control several social and foreign affairs ministries—such as education, public works, foreign affairs, and public security and justice—moderate technocrats will hold most of the economic posts.⁸ In addition to expanding social services and addressing the

¹ “FMLN wins in El Salvador,” *Latin News Daily*, March 16, 2009.

² “El Salvador: 20,000 policías y soldados en comicios,” *Associated Press*, March 4, 2009; “El Salvador prepares to vote,” *Latin News Daily*, March 13, 2009.

³ Maureen Meyer, “Election Season in El Salvador,” *Washington Office on Latin America*, January 15, 2009.

⁴ Priscilla B. Hayner, *Unspeakable Truths: Facing the Challenge of Truth Commissions*, (New York, NY: Routledge, 2002).

⁵ “FMLN claims historic victory,” *Latin American Caribbean & Central America Report*, March 2009.

⁶ Mauricio Funes, “Discurso Toma de Posesión,” June 1, 2009.

⁷ Presidente electo El Salvador propone pacto social ante crisis,” *Reuters*, March 16, 2009.

⁸ “Funes picks cabinet in El Salvador,” *Latin News Daily*, June 1, 2009.

faltering economy, Funes has pledged to take on the longstanding problems of crime and violence, and has already reestablished diplomatic relations with Cuba.⁹

Challenges for the Funes Administration

Opposition Legislature

Although the FMLN increased its representation and won a plurality in El Salvador's 84-seat National Assembly, the party was unable to secure control of the body's presidency. The FMLN holds just 35 seats, and was only able to win the backing of an independent and the sole deputy from the center-left Democratic Change (CD). Meanwhile, the center-right Christian Democratic Party (PDC)—which holds five seats—and the conservative National Conciliation Party (PCN)—which holds 10 seats—agreed to join together with the 32 ARENA deputies to form a united opposition to the Funes government. In May 2009, the conservative bloc appointed Ciro Cruz Zepeda of the PCN president of the National Assembly's ruling directorate for the 2009-2012 legislature. Given that a two-thirds majority vote is needed to pass a number of crucial measures, including the budget, the Funes Administration may have a difficult time advancing its agenda. Consensus may be possible, however, as the National Assembly's lone independent deputy has suggested that a number of deputies from the PCN, PDC, and ARENA are dissatisfied with the status quo and are willing to work with President Funes.¹⁰

Endemic Poverty and a Faltering Economy

With a per capita income of \$2,850, El Salvador is considered by the World Bank to be a lower-middle-income country.¹¹ It achieved notable stability and economic growth in the 1990s following the Salvadoran government's embrace of a "neo-liberal" economic model, cutting government spending, privatizing state-owned enterprises, and adopting the dollar as its national currency. El Salvador is now one of the most open economies in the world. After posting strong growth rates in the 1990s, however, the country registered only 2% growth from 2000-2004 and 3.6% growth from 2005-2008.

While El Salvador's economy has fared better than some other nations in the hemisphere, the country's growth rates have not been high enough to produce dramatic improvements in the standards of living of the country's 7.1 million people. With 48% of the population living in poverty and more than 25% reportedly feeling they must migrate abroad in search of work, some critics have argued that the average Salvadoran household has not benefitted from neoliberalism. Dollarization has raised the cost of living while its primary benefits, lower interest rates and easier access to capital markets, have not resulted in an overall decline in poverty levels. Between 1989 and 2004, poverty levels rose from 47% to 51%. Additionally, the fruits of stable economic growth have not been equitably distributed as the income of the richest 10% of the population is 47 times higher than that of the poorest 10%. Although migration has reduced rural unemployment and infused some households with extra income in the form of remittances, it has

⁹ Mauricio Funes, "Discurso Toma de Posesión," June 1, 2009; "Normalizan El Salvador y Cuba relaciones diplomáticas," *Agencia Mexicana de Noticias*, June 1, 2009.

¹⁰ "El Salvador: Arena builds bloc to constrain Funes," *Latin American Weekly Report*, May 7, 2009.

¹¹ World Bank, World Development Report, 2009.

caused social disruptions and resulted in a “passive and dangerous dependency” in some communities.¹²

In addition to addressing El Salvador’s longstanding poverty and inequality, President Funes will need to confront the effects of the global financial crisis and economic downturn. Remittances, investment, and demand for Salvadoran goods have declined sharply as a result of the deep recession in the United States, El Salvador’s most important trading and investment partner. During the first four months of 2009, remittances fell 9% and export earnings fell 15% year-on-year.¹³ Income tax revenues were also down in the first four months of 2009, falling nearly 26% from the same period in 2008.¹⁴ The Funes Administration has estimated that it is inheriting a \$1.2 billion budget shortfall (5.4% of GDP) and announced that the International Monetary Fund’s (IMF) latest estimates indicate that El Salvador’s economy will contract by 1% in 2009.¹⁵ Funes’ commitment to maintaining dollarization leaves the central bank with no way of implementing monetary policy, further constraining the Administration’s ability to address the economic downturn. In his inaugural address, President Funes announced an economic stimulus and social protection plan. Among other provisions, the plan would set up a temporary employment program, expand social services, create a new social development bank to provide loans to micro and small enterprises, and invest in public infrastructure projects.¹⁶

Gangs and Violence¹⁷

The Funes Administration will also have to deal with the related problems of crime and violence that have plagued El Salvador since its civil war. Pervasive poverty and inequality, unemployment and underemployment, drug trafficking, corruption, and illicit firearms have all contributed to the current situation. In 2008, El Salvador had a murder rate of 53 per 100,000 inhabitants, one of the highest in the world.¹⁸ As many as 30,000 Salvadoran youth belong to *maras* (street gangs), which Salvadoran National Police officials maintain are responsible for up to 60% of homicides. While evidence to support the National Police estimate is lacking, most observers agree that gangs are increasingly involved in human trafficking, drug trafficking, and kidnapping, and threaten the country’s stability.¹⁹

In response to the gang problem, El Salvador’s Congress passed tough *mano dura* (“firm hand”) anti-gang reforms in 2003 and 2004 that outlawed gang membership, enhanced police power to search and arrest suspected gang members, and stiffened penalties for convicted gang members. Changes in legislation have been accompanied by the use of joint military and police patrols to

¹² Dovelyn Agunias, “Remittance Trends in Central America,” *Migration Policy Institute*, April 2006; Sarah Gammage, “Exporting People and Recruiting Remittances: A Development Strategy for El Salvador?,” *Latin American Perspectives*, November 2006.

¹³ “Country Report: El Salvador,” *Economist Intelligence Unit*, June 2009.

¹⁴ “El Salvador: Funes starts to grumble about economic management,” *Latin American Economy & Business*, May 2009.

¹⁵ “El Salvador’s New Leftist President Faces Daunting Economic Tasks; No Help Expected From A Battered Right Wing,” *Latin America Data Base NotiCen*, May 28, 2009.

¹⁶ Mauricio Funes, “Discurso Toma de Posesión,” June 1, 2009.

¹⁷ For more information, see CRS Report RL34112, *Gangs in Central America*, by Clare Ribando Seelke.

¹⁸ “Country Report: El Salvador,” *Economist Intelligence Unit*, May 2009.

¹⁹ “2,576 Homicidios en el 2004 en El Salvador,” *Agence France Presse*, January 5, 2004; United Nations Office on Drugs and Crime (UNODC), *Crime and Development in Central America: Caught in the Crossfire*, May 2007.

round up gang suspects. The Salvadoran government reported that its tough anti-gang legislation initially led to a 14% drop in murders in 2004, but murder rates and gang-related crimes have remained at elevated levels since that time. Many youth arrested under *mano dura* provisions have been subsequently released for lack of evidence that they committed any crime. Gang roundups have also exacerbated prison overcrowding, and inter-gang violence within the prisons has resulted in several inmate deaths. Moreover, there have been credible reports that extrajudicial youth killings by vigilante groups have occurred since *mano dura* took effect.²⁰ Following the inauguration of President Funes, two of El Salvador's largest gangs—Mara Salvatrucha and M-18—expressed a desire to hold talks with the new government and called on the Funes Administration to end the *mano dura* policies of his predecessor.²¹

Relations with the United States

Throughout the last two decades, the United States has maintained a strong interest in the political and economic situation in El Salvador. During the 1980s, El Salvador was the largest recipient of U.S. aid in Latin America as its government struggled against the armed FMLN insurgency. Military aid to El Salvador reached a peak of \$196.6 million in 1984 and total aid peaked at \$574.4 million in 1987.²² After the 1992 peace accords were signed, U.S. involvement in El Salvador shifted towards helping the government transform the country's economy into a model of free-market economic development. Total U.S. foreign assistance to El Salvador declined from wartime levels and shifted from military aid towards development assistance. Successive ARENA governments maintained close ties with the United States, cooperating in counter-narcotics operations, supporting the U.S. coalition forces in Iraq, and implementing the Dominican Republic-Central America-United States Free Trade Agreement (CAFTA-DR).

Some analysts predicted that a Funes victory would complicate U.S.-Salvadoran relations. Indeed, a number of Members of Congress expressed dismay over alleged links between the FMLN and countries such as Venezuela, Russia, and Iran and suggested that a Funes victory may necessitate strict control over remittances to El Salvador and the termination of Temporary Protected Status for Salvadorans living in the United States.²³ However, other Members of Congress expressed their hopes that the Obama Administration would respect the will of the Salvadoran people by working constructively with whoever was democratically elected.²⁴ The Obama Administration reaffirmed its neutrality in the days before the election and announced it would respect the result.²⁵ At his inauguration, which U.S. Secretary of State Hillary Clinton attended, Funes declared his intention to expand, strengthen, and renew El Salvador's relations with the United States, and cited President Obama as the type of progressive leader he hopes to

²⁰ "Central America: Maras Pose Greater Threat Than Ever," *Latin American Weekly Report*, February 7, 2008; United Nations Development Program (UNDP), "*Maras y Pandillas: Comunidad y Policia en Centroamérica*," October 2007; "Youth Gangs in Central America," *Washington Office on Latin America*, November 2006.

²¹ "Balance provides key to success for El Salvador's new president," *Latin American Weekly Report*, June 4, 2009.

²² U.S. Agency for International Development, "U.S. Overseas Loans and Grants [Greenbook]," 2009.

²³ "Funes critica amenaza de quitar TPS a salvadoreños," *Associated Press*, March 12, 2009. For more information on Temporary Protected Status, see "Migration Issues".

²⁴ "Piden legisladores de EU a Obama respeto electoral en El Salvador," *Agencia Mexicana de Noticias*, March 5, 2009.

²⁵ EEUU dice que respetará resultado de elección en El Salvador," *Associated Press*, March 12, 2009.

emulate during his administration.²⁶ President Obama has spoken with President Funes several times since his election, congratulating Funes on his victory and meeting him in person at the Fifth Summit of the Americas. Although President Funes has already reestablished diplomatic relations with Cuba and will likely strengthen ties with Venezuela, he is unlikely to follow the economic or foreign policies of those countries. Funes has pledged to maintain the dollarization of El Salvador's economy, continue to recognize the country's sovereign debt obligations, and remain in all trade agreements, including CAFTA-DR.²⁷

U.S. Foreign Aid

El Salvador received about \$31.5 million in regular U.S. assistance in FY2008, and will likely receive over \$32 million in FY2009. El Salvador is also likely to receive a portion of the \$105 million appropriated for Central America in FY2009 under the Mérida Initiative in the Omnibus Appropriations Act, 2009 (P.L. 111-8). The Obama Administration's FY2010 request for El Salvador is nearly \$40.5 million in bilateral assistance. The Administration also requested \$100 million in Mérida funds for the Central American region. U.S. assistance to El Salvador provides support for improvements in the health and education systems, rule of law and good governance reforms, and counternarcotics programs.²⁸

In late November 2006, El Salvador signed a five-year, \$461 million compact with the Millennium Challenge Corporation to develop its northern border region, where more than 53% of the population lives in poverty. The compact includes (1) \$88 million for technical assistance and financial services to farmers and rural businesses; (2) \$100 million to strengthen education and training and improve public services in poor communities; and (3) \$233 million to rehabilitate the Northern Transnational Highway and some secondary roads. The MCC compact has been designed to complement the CAFTA-DR and regional integration efforts. Although many have praised its potential, some have questioned why the compact was not designed to encourage communities to channel remittance flows into collective projects that could generate employment and improve local infrastructure.²⁹

Counter-Narcotics Issues

Not a major producer of illicit drugs, El Salvador serves as a transit country for narcotics, mainly cocaine and heroin, cultivated in the Andes and destined for the United States via land and sea. In 2008, El Salvador's National Civilian Police seized 1.35 metric tons of cocaine, 430 kilograms of marijuana, and 8.4 kilograms of heroin.³⁰ U.S. counternarcotics assistance focuses on improving the interdiction capabilities of Salvadoran law enforcement agencies; increasing transparency, efficiency, and respect for human rights within the criminal justice system; and aiding Salvadoran efforts to fight transnational gangs.

²⁶ Mauricio Funes, "Discurso Toma de Posesión," June 1, 2009.

²⁷ Maureen Meyer, "Election Season in El Salvador," *Washington Office on Latin America*, January 15, 2009.

²⁸ U.S. Department of State, "FY2010 Congressional Budget Justification for Foreign Operations," May 29, 2009.

²⁹ The MCC compact also includes \$45 million to cover program administration and evaluation. See <http://www.mcc.gov/documents/factsheet-112906-elsalvador.pdf>; Marcela Sánchez, "Putting Remittances to Work," *Washington Post*, December 9, 2006.

³⁰ U.S. Department of State, *International Narcotics Control Strategy Report*, February 27, 2009.

Comalapa International Airport in El Salvador serves as one of three Forward Operating Locations (FOLs) for U.S. anti-drug forces in the hemisphere. The FOL extends the reach of detection and monitoring aircraft into the Eastern Pacific drug smuggling corridors, through which more than half of the narcotics destined for the United States transit.³¹ Although the U.S. lease on the airport was set to expire in 2010, El Salvador signed an agreement in April 2009 that will allow the United States to continue using Comalapa as an FOL for an additional five years.³² El Salvador is also the home of the U.S.-backed International Law Enforcement Academy (ILEA), which provides police management and specialized training to the countries of the region.

In May 2009, the Foreign Relations Authorization and Reform Act for Fiscal Years 2010-2011 (H.R. 2475, Ros-Lehtinen) was introduced in the House. Among other provisions, the bill expresses the sense of the Congress that ILEA should continue to serve as a critical component of regional counterterrorism efforts, calls on the Secretary of State to ensure that counterterrorism is part of ILEA's core curriculum, and authorizes such funds as are necessary to complete construction of the ILEA facility and implement the ILEA Global Network. The Western Hemisphere Counterterrorism and Nonproliferation Act of 2009 (H.R. 375, Ros-Lehtinen), which was introduced in the House in January 2009, contains a similar provision.

Support for U.S. Military Operations in Iraq

El Salvador sent 360 soldiers to Iraq to support the U.S.-led coalition in August 2003 and maintained a constant troop presence there for five and a half years, the longest contribution of any Latin American nation. In December 2008, the Salvadoran government announced that the last contingent of Salvadoran soldiers would leave Iraq following the expiration of the U.N. Security Council mandate on December 31, 2008.³³ The final Salvadoran soldiers to serve in Iraq—the 200 members of the 11th Contingent of the Cuscatlan Battalion—returned to El Salvador in February 2009. During their time in Iraq, the 11 Salvadoran contingents carried out 30 reconstruction projects worth \$1.2 million in the cities of Al Hillah and Al Kut. Five Salvadoran soldiers were killed and 20 were wounded.³⁴ The FMLN continually opposed sending Salvadoran soldiers to support the U.S.-led coalition, and most polls indicate that a majority of Salvadorans were against sending troops to Iraq.³⁵

Migration Issues

The United States responded to the natural disasters in El Salvador in 2001 by granting Temporary Protected Status (TPS) to eligible Salvadoran migrants living in the United States.³⁶ In October 2008, the U.S. government extended the TPS of an estimated 220,000 eligible Salvadoran migrants living in the United States until September 9, 2010. TPS is an important bilateral issue for El Salvador, whose migrants living in the United States sent home some \$3.9

³¹ U.S. Southern Command, "Fact Sheet: Forward Operating Locations," February 5, 2009.

³² "Aplíen permanencia de centro antidrogas de EU en El Salvador," *Agencia Mexicana de Noticias*, April 2, 2009.

³³ "Presidente de El Salvador anuncia retiro de tropas de Irak," *Reuters*, December 23, 2008.

³⁴ "200 Soldiers of last El Salvador detail in Iraq return home," *EFE News Service*, February 7, 2009.

³⁵ "El Salvador to cut Small Troop Presence in Iraq," *Reuters*, August 7, 2008.

³⁶ For more information on TPS, see CRS Report RS20844, *Temporary Protected Status: Current Immigration Policy and Issues*, by Ruth Ellen Wasem and Karma Ester.

billion (22% of GDP) in remittances in 2008.³⁷ The exodus of large numbers of poor migrants to the United States has also eased pressure on the Salvadoran social service system and labor market. In contrast, some observers are concerned about the impact Salvadoran deportees from the U.S. are having on the country's gang problems. In FY2008, nearly 21,000 Salvadorans were deported from the United States, 27% on criminal grounds.³⁸

U.S. Trade and CAFTA-DR

The United States is El Salvador's main trading partner, purchasing 48% of its exports and supplying close to 34% of its imports. More than 300 U.S. companies currently operate in El Salvador, many of which are based in the country's 13 free trade zones. Since the 1980s, El Salvador has benefitted from preferential trade agreements, such as the Caribbean Basin Initiative and later the Caribbean Basin Trade Partnership Act (CBTPA) of 2000, which have provided some of its exports, especially apparel and related items, duty-free entry into the U.S. market. As a result, the composition of Salvadoran exports to the United States has shifted from agricultural products, such as coffee and spices, to apparel and textiles. Since the expiration of global textile quotas on December 31, 2004, Salvadoran apparel producers have had trouble competing with goods from cheaper Asian producers.

On December 17, 2004, despite strong opposition from the FMLN, El Salvador became the first country in Central America to ratify the Dominican Republic-Central America-United States Free Trade Agreement (CAFTA-DR). El Salvador was also the first country to pass the agreement's required legislative reforms, implementing CAFTA-DR on March 1, 2006. Some Salvadoran officials have attributed increases in employment, exports, and investment to the agreement's implementation. Although the country's apparel exports to the United States declined during the first year CAFTA-DR was in effect, El Salvador saw a 21% rise in non-apparel exports to the United States, with significant increases in ethanol, food stuffs, and metal products. Salvadoran exports to the United States then increased by 10% in 2007 and 9% in 2008 as a result of a slight recovery in textile and apparel exports and an increase in non-traditional exports. U.S. exports to El Salvador have also increased, rising by 16% in 2006, 7.5% in 2007, and 6.5% in 2008.³⁹

Critics are concerned, however, that the inability of some Salvadoran farmers to compete with U.S. agricultural producers may offset any job and investment gains that result from the agreement. Critics also argue that although CAFTA-DR has provisions providing for the enforcement of domestic labor and environmental laws and creating cooperative ways to bring those laws up to international standards, the penalties for countries not enforcing their laws are relatively weak. Proponents maintain that the MCC compact, as well as existing trade capacity building programs funded by the United States and other donors, should help ensure that vulnerable sectors benefit from the agreement.

³⁷ "Latin America: Remittances slide," *Economist Intelligence Unit Business Latin America*, January 26, 2009.

³⁸ Information provided to CRS by the Department of Homeland Security, Immigration and Customs Enforcement, Office of Detention and Removal.

³⁹ U.S. Department of Commerce statistics, as presented by *World Trade Atlas*, 2009.

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